

Canadian Celanese Limited

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31ST

1935



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CELANESE

Big Canadian
Artificial Silk Manufacturer



DURING the eight years of its corporate existence as a Canadian enterprise, Canadian Celanese, Limited, has made notable strides in building itself into an important position. Its record is one of success—measured by production activity, volume of employment, development of products, sales expansion and earnings growth. During the first ten months of 1935 the company has experienced the best operating conditions in its history, with seasonal peaks and valleys considerably flattened out, and production maintained on a more continuous work basis. There has been further rise in factory employment to some 2,550 hands, this being in sharp contrast with a force of about 1,000 in 1929, on the eve of the great business depression. Plant space and/or equipment, working force, production and sales volume have been increased, while gross and net earnings have risen steadily.

CANADIAN CELANESE, LIMITED

THE NAME The name used by the British, United States and Canadian companies, "Celanese" is a world-wide trade name that lends itself to the products that are manufactured and distributed by the group.

HISTORY The company was incorporated with a Dominion of Canada charter in January, 1926. A plant at Drummondville, Que., was constructed primarily for the purpose of manufacturing Celanese products and had the additional advantages of cheap power and good labor. Completion of the chemical department in 1928 resulted in a self-contained unit. It produces its own cellulose acetate through the various stages to the yarns and then to the finished fabrics. The latter now form the main revenue-producing sources. The fabric plant was more than doubled during 1928 and further extended in 1930-31, in 1934, and again in 1935.

YARNS AND FABRICS Fundamentally the company is a manufacturer of "Celanese" yarns that are developed from cotton fibres under the acetate process, as distinct from the viscose processes under which the so-called "Rayon" yarns are produced from wood fibres. In a secondary—and now even more important sense—it is a large and growingly important manufacturer of artificial silk fabrics from "Celanese" yarns alone or in combination with pure silk, wool and even cotton yarns. Surprisingly, the company is one of the largest users of real silk yarns in Canada, and a leading user of wool and cotton yarns. In Canada, in a space of only a few years, Celanese fabrics have been built up from an unknown quantity to their now widely recognized high standards of quality, utility and appearance.

RESEARCH One of the most important phases of the activities of the company lies in the realms of chemistry and research. Originally a development brought into widespread use for military purposes during the Great War, cellulose acetate as a basic product has been refined and its application extended. The British company (the original unit) on the advent of peacetime conditions expended millions of dollars on the development of manufacturing processes and millions more in creating and perfecting new dyes and dyeing processes that laid the foundation for the widespread scientific structure that has since become the structure upon which the peacetime "Celanese" industry has been built. The company has research laboratories manned by chemists and scientists whose aim it is to maintain a constant trend of improvement in products now manufactured, improve processes and treatments, evolve new ideas and extend their applications to industry and trade generally.

EXTENSION OF PLANT The plant at Drummondville was doubled in 1928, further increased in 1930-31, again in 1934, with still another important addition completed in 1935. Large future extensions to the already substantial capacity of the plant which, at present, is unable to satisfy the demand for its products, although operating at capacity, seem certain.

CAPITALIZATION There are no bonds authorized or outstanding. The senior share issue is non-redeemable \$7 cumulative participating preferred stock of \$100 par. Of this, 150,000 shares are authorized and 90,000 shares outstanding, prior to which come 90,000 Income Funding Rights bearing \$1 per annum interest and redeemable at \$25 a right. Following the preferred comes the no par value common stock authorized at 300,000 shares of which 250,409 have been issued. The preferred and common shares are listed on the Montreal Stock Exchange and the New York Produce Exchange where also the Income Funding Rights are dealt in.

DISTRIBUTION OF SHARES The preferred and common shares are owned internationally by investors in Great Britain, the United States, Canada and elsewhere. The preferred has become closely held by investment trusts, investment corporations, estates and individuals. The common shares are also widely owned.

DIVIDEND RECORD Although dividends on the \$7 cumulative preferred were paid regularly from their inception in December, 1930, first semi-annually and then quarterly, dividends had accrued during the construction period from April, 1926. Accumulated arrears were \$29.75 a share. Payments on account of arrears of \$1 in 1932, \$2.50 in 1933 and \$2.25 in 1934 reduced the amount owing to \$24 per share.

PREFERRED ARREARS CANCELLED In December, 1934, shareholders approved a Scheme of Arrangement whereby these arrears were cancelled. Each share of preferred was given an "Income Funding Right" entitling the holder to payment of \$1 per annum in interest if earned and redeemable at \$25. In addition, a participating dividend of \$1.91 a share was declared payable March 30, 1935, on the preferred, covering proportion of accumulated surplus to December 31, 1934.

COMMON DIVIDEND Cancellation of the accumulated preferred arrears and payment of a participating dividend due to the preferred stock in full, has placed the common shares in a position where dividends may be paid on them. If business, as expected, continues to run ahead of the 1935 level, a common dividend payment may be considered in the near future.

EARNINGS Profits of the company have shown an uninterrupted advance since earnings figures were first published in 1928. Displaying marked resistance to depression influences, earnings reached a new high record in 1934 when \$16.72 was earned per share on the preferred as compared with \$14.01 in 1933, \$7.99 in 1932 and a five-year average of \$11.34 a share. On the common, \$3.14 a share was earned in 1934 after allowing for the 10% participating preferred dividend; in 1933 earnings were \$2.27 a share and in 1932, 32c. a share.

FINANCIAL POSITION

Company has always maintained a strong liquid position with net working capital standing at \$3,078,109 as at December 31, 1934, on a ratio of \$7 of current assets for each \$1 of current liabilities. Cash of \$672,234 and marketable securities of \$977,912 combined constituted 53.6% of this total. Not included in current assets were securities held for investment, valued at \$274,481. Real estate, plant, machinery and equipment were carried at \$9,136,895, against which there was a reserve for depreciation of \$1,358,541. Patents, processes, trade marks and contracts were at \$1,598,242, against this were reserves, other than reserves for depreciation, of \$1,064,924.

EQUITY

Net tangible assets, after deduction of reserves for depreciation and amortization, gave a book value of \$136.14 behind each preferred share at the end of 1934, of which net working capital represented \$34.20, and cash and marketable securities alone \$18.33. Each common share had an equity of \$12.99 after rights of the non-redeemable preferred stock were satisfied in full.

CONCLUSION

It would seem that from a sales angle the company enjoys a strong and progressive position. Its production facilities may be expected to keep pace with trade demands for products now being manufactured or yet to be brought out. Financially the corporate position is secure. Future development should work out beneficially for the shareholders, the preferred shares participating with the common in whatever expansion in net earnings may come about. Because of the developing markets in Canada, and the possibilities ahead for the launching of new products, the outlook seems encouraging and about as clearly defined as the future of any corporation or industry can be.



A Study by Financial Counsel

NOVEMBER, 1935

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Canadian Celanese Limited

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Directors

BRIG.-GEN. SIR WILLIAM ALEXANDER
K.B.E., C.B., C.M.G., D.S.O., M.P.

C. L. AUGER	HENRI DREYFUS
LEE CADIEN	A. SCHWARTZ
W. MCC. CAMERON	P. A. THOMSON
CAMILLE DREYFUS	G. H. WHIGHAM

Finance and Executive Committee

P. A. THOMSON (Chairman)	CAMILLE DREYFUS
G. H. WHIGHAM	W. MCC. CAMERON

Officers

G. H. WHIGHAM, Chairman of Board of Directors
CAMILLE DREYFUS, President
W. MCC. CAMERON, Vice-President
LEE CADIEN, Secretary and Treasurer
H. BLANCHE, Assistant Secretary and Assistant Treasurer
C. W. PALMER R. H. SPERLING
Vice-President Factory Manager
C. HESSEY-WHITE
Sales Manager

General Offices

1401 McGill College Avenue
Montreal, P.Q.

Factory

Drummondville
P.Q.

Auditors

MESSRS. P. S. ROSS & SONS
Montreal, P.Q.

DIRECTORS' REPORT

TO THE SHAREHOLDERS
OF CANADIAN CELANESE LIMITED:

Appended hereto are copies of the Balance Sheet and Earned Surplus Account as at December 31, 1935 and a Statement of Income and Expenditure for the year ended December 31, 1935 together with the Auditor's Certificate.

The net profit for the year transferred to the Earned Surplus Account was \$1,602,960.19 as compared with \$1,504,708.51 for the previous year.

During the year under review the regular \$7.00 dividend on the 7% Cumulative Participating Preferred Stock amounting to \$630,000.00 was paid and a participating dividend of \$1.91 per share aggregating \$171,900.00 was paid in respect of the Earned Surplus to January 1, 1935.

You will also note from the Earned Surplus Account that an amount of \$89,000.00 has been appropriated out of the net profits for the year for payment of interest for 1935 on Income Funding Rights outstanding at December 31, 1935.

The participating dividend to which the Preferred shareholders are entitled with respect to the year 1935 will be paid when declared by the Board of Directors and charged to the Surplus Account.

In anticipation of the requirements of the Sinking Fund provision of Special By-Law "A" of the Company, the Company purchased during the year 1,000 Income Funding Rights which are carried on the Balance Sheet at cost of \$20,190.00.

The Company has improved its current position in spite of capital expenditures for increased facilities in amount of approximately \$760,000.00.

For the Board of Directors,

CAMILLE DREYFUS,
President

Balance Sheet
as at December 31, 1935
A s s e t s

FIXED:

Real Estate, Plant, Machinery and Equipment, at Cost	\$ 9,897,923.61	
Patents, Processes, Trade Marks and Contracts	1,615,853.88	\$11,513,777.49
Securities held for Investment, valued at Cost		262,143.27

CURRENT:

Cash on Hand and in Banks	983,810.22	
Government Bonds and other Securities, at Cost (Market Value \$1,169,262.00)	1,027,286.77	
Trade Debtors, less Reserve for Doubtful Accounts	628,418.23	
Other Accounts Receivable and Accrued Interest	19,317.24	
Inventories of Raw Materials, Supplies, Work in Process and Finished Goods — Physical Inventories, valued at Cost	1,363,082.35	4,021,914.81

DEFERRED AND PREPAID CHARGES:

Unexpired Insurance, Taxes, etc.	17,777.76	
Inventories of Stationery and Advertising Materials, at Cost	17,720.80	
Cost of 1,000 Income Funding Rights, purchased during the year and to be dealt with in accordance with the provisions of Special By-Law "A"	20,190.00	55,688.56
		<u>\$15,853,524.13</u>

Approved on behalf of the Board:

(Signed) C. L. AUGER, Director.

P. A. THOMSON, Director.

Balance Sheet
as at December 31, 1935
Liabilities

CAPITAL STOCK:

AUTHORIZED—

150,000 Shares 7% Cumulative
Participating Preferred,
Par Value \$100.00 per Share
300,000 Shares Common, without
Nominal or Par Value

ISSUED—

90,000 Shares Preferred	\$ 9,000,000.00	
250,409 Shares Common	981,545.00	\$ 9,981,545.00

Income Funding Rights having the attributes set forth in Special By-Law "A":

Issued under the Scheme of
Arrangement of Nov. 7,
1934 90,000 Rights

Less: Purchased by the
Company during the year,
as per Contra (Rights purchased by the Company
cannot be reissued) 1,000 Rights

89,000 Rights

RESERVES:

For Depreciation of Buildings, Machinery and Equipment	1,680,051.85	
For Amortization of Patents and Processes	512,833.84	
For Contingencies, Unascertained Charges, etc.	102,383.01	
Special Reserve	450,000.00	2,745,268.70

CURRENT:

Accounts Payable and Accrued Liabilities	341,585.90	
Interest on Income Funding Rights	89,000.00	
Provision for Dominion, Provincial and Municipal Taxes	293,376.67	723,962.57

Earned Surplus, per Statement attached		2,402,747.86
		<u>\$15,853,524.13</u>

Examined and Certified in accordance with our attached Certificate.

P. S. ROSS & SONS,

MONTREAL, February 14, 1936.

Chartered Accountants.

EARNED SURPLUS ACCOUNT

as at December 31, 1935

Balance at Credit, January 1, 1935	\$1,719,000.00
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DEDUCT:

Prior Year Adjustments:

Additional Income Taxes	\$ 14,014.51	
Adjustment of Royalties, etc.	14,297.82	28,312.33
		1,690,687.67

ADD:

Net Profit for the year Transferred from Statement of Income and Expenditure	1,602,960.19
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LESS:

Amount appropriated for payment of interest for 1935 on Income Funding Rights outstanding on December 31, 1935	89,000.00	1,513,960.19
		3,204,647.86

DEDUCT:

Dividends paid on Preferred Shares:

7% for the year 1935	630,000.00	
Participating Dividend of 10% on the accumulated profits to Dec- ember 31, 1934	171,900.00	801,900.00

Balance at Credit December 31, 1935	\$2,402,747.86
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NOTE:—The participating dividend in respect of the year 1935, to which the holders of Preferred Stock are entitled in accordance with the Letters Patent of the Company, will be paid when and as declared by the Board of Directors and will be charged against the above balance at Credit of Earned Surplus Account as at December 31, 1935.

STATEMENT OF INCOME and EXPENDITURE

For the Year Ended December 31, 1935

Net Operating Profit before taking up the items below	\$2,254,692.98
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ADD:

Income from Investments	49,104.55	
		2,303,797.53

DEDUCT:

Remuneration of Executive Officers and of Directors required to be shown separately under section 113(2) of the Companies' Act	\$ 72,280.00	
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Fees of Directors not included above	7,740.00	
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Legal Fees	10,424.08	
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Depreciation	325,393.26	
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Income Tax Reserve	285,000.00	700,837.34

Net Profit for the year transferred to Earned Surplus Account		\$1,602,960.19

AUDITORS' CERTIFICATE

February 14, 1936

CANADIAN CELANESE LIMITED,
MONTREAL.

We have examined the books of account and financial records of Canadian Celanese Limited for the year ended December 31, 1935 and have obtained all the information and explanations we have required.

We certify that, in our opinion, the attached Balance Sheet and relative Statement of Income and Expenditure and Earned Surplus Account present a true and correct statement of the financial position of the Company as at December 31, 1935 and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,

Chartered Accountants.

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